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Russian Federation

Solid Wood Products

Russian Softwood Logs and Products: Production and Export Update

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Report Highlights:
The absence of value-added processing and illegal logging continues to pose enormous problems for the Russian forestry sector. Though Russian exports of forest products are increasing, unprocessed softwood logs make up the bulk of Russian exports. Additionally, efforts to combat illegal logging have yet to stem the flow of illegal products out of Russia. For example, third countries report importing three million cubic meters of softwood logs more than Russian customs records as exports. These two problems are the biggest challenges for the Government of the Russian Federation as it tries to spur development of a modern forest products industry.

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Executive Summary

The Russian forest sector lacks consistent, complete, and reliable official statistics. This is a key factor in explaining the lack of understanding of the sector and major differences between production and export statistics reported by Russian agencies and import data reported by major import markets. This report is intended to compare official statistics from Russia and major importing countries in order to improve the understanding of the Russian forest products trade sector. A clearer picture of the official trends in trade and an introduction to the trends in the gray market will help to improve the knowledge of the Russian forest products trade and how it is affecting trading partners and third countries, including the United States.

Upon re-examining trade based on recently released information regarding illegal logging and trade, Post estimates that production of softwood logs was underestimated by six percent and exports by 29 percent. This is very significant because softwood logs are by far the largest category of forest products production and trade in Russia. The log output estimate change is mainly due to unexpectedly strong growth in the production sector and new data, though still from a relatively small base. Exports of softwood logs to China grew much faster than previously forecast, increasing by 60 percent in 2002.

The most difficult problem in assessing Russian forest products trade is illegal logging and trade in wood products. According to trade sources, underreporting of logging and exports is primarily motivated by attempts to evade of state and federal taxes. In 2002, importing countries recorded 3.34 million cubic meters of softwood logs, about 11 percent of total exports, which went unaccounted for by Russian customs.

Illegal Logging

Although government agencies are trying to enforce regulatory measures that combat illegal logging, the problem is increasing, mostly due to lack of enforcement on the regional level. The following factors contribute to illegal logging in Russia: general criminalization of certain sectors of the resource extraction economy; lack of proper enforcement by regulatory agencies; poor coordination efforts between the Natural Resources Ministry and law enforcement agencies; and lack of reliable forestry documentation/registration.

According to the Ministry of Natural Resources, the Russian Government's budget annually loses $5.5 billion rubles ($1.8 billion dollars) due to illegal logging. Taking into account the fact that the Russian Forest sector's annual turnover is estimated at six billion dollars, the financial damage is considerable. Similarly, the Russian Government has great incentives to improve this situation in order to regularize this economic activity in the future. According to a recent audit report by the Audit Chamber of the Russian Federation, these illegal activities account for 25–30 percent of all unreported profits to the Tax Committee. Moreover, it estimated that more than one-third of wood and wood products being sold to Japan and China is not reported to customs.

According to a different source, the World Wildlife Fund, in 2002 the volume of illegal logging was estimated at 11.2 million cubic meters, 36 percent of total production. According to the same source, 35 percent of all wood that was logged in European Russia and 50-70 percent of the wood logged in the Far East and Caucasus have illegal origins. According to Post analysis of importer trade data, a minimum of 3.34 million cubic meters of softwood logs is illegally exported from Russia without Russian customs clearance but registered by the importing country. Moreover, immense quantities are exported without customs registration by Russian Customs and the importer country and large supplies of illegal wood are also presumed to stay inside Russia. Based on that, the World Wildlife's funds estimate of total illegal logging (11.2 million cubic meters) sounds high, but plausible.

In addition to the obvious negative impact on the Russian economy in terms of tax evasion and revenues, illegal logging also affects trade for competing exporters, such as the United States. This is especially true in Asia. Illegal logging poses problems for competitors because these materials are sold below cost. Obviously, illegal businesses do not pay taxes or customs duties, conduct mandatory replanting and environmental conservation activities, or comply with social obligations and community development. Although it is quite difficult to quantify, clearly foreign and Russian competitors and Russian communities would benefit if this unfair competition were legalized. Use of illegal imported wood also gives producers in importing countries, such as China, a competitive advantage due to the low costs of raw materials. Low raw material costs help those producers compete more successfully in their own domestic market and in exporting finished goods using that wood.

Since July 2002, the Chinese government has tackled illegal imports of softwood logs by establishing a requirement for pest-free certification on all imported logs. Chinese officials dispatch agents to Russia to conduct quarantine procedures from their border entry points. Since a large proportion of overall trade goes unregistered, it is unclear how much of the total trade is being inspected. However, it is hoped that this measure will eventually oust dishonest companies from the market by forcing them to comply with the required documentation for longstanding and reliable trade.

Trade Outlook

Overview

According to the Ministry for Economic Development and Trade, current world economic conditions, relative price fluctuations, higher stocks, and higher demand for product quality will be the core indicators for the expansion in wood products exports. Current Government estimates indicate a major change in the export structure of wood products from unprocessed products to value-added products. It is estimated that in the near future, export of veneer, pulp, paper and carton will increase, while exports of cut round wood will decline.

Despite rosy Government predictions, Russia's timber trade is still lacks an effective base to make the shift to value added production. Although Russia is one of the world leaders in forestry resources, its exports remain basically unprocessed wood products due to the vastness of the industry and lack of sufficient investment. In comparison, Scandinavian countries process 85 percent of the wood stock, while Russia processes only five percent. Russian import statistics show that Russia continues to export logs and lumber, while importing high-value processed wood products from many of the same countries to which they sell raw logs.

The export value of Russian wood and pulp products increased by 10.5 percent in 2002. While round wood exports have increased in volume by 15.7 percent, lumber increased by 18.9 percent, plywood by 11.2 percent, and cellulose by two percent. However, softwood logs remain the major wood product exported by the Russian Federation. In 2002, exports of softwood logs reached $1.3 billion, which represents approximately 46 percent of total exports of wood products ($2.9 billion).

Trade with China and Finland is shaping the growth of the Russian export sector. China, always a major destination, is becoming by far the most important trading partner for Russia's biggest export, softwood logs. Between 2000 and 2002, China went from importing

25 percent of Russian softwood logs to importing 45 percent. During that same period, China's share of Russia's softwood lumber exports also rose by nearly five percent. On the other end of Russia, Finland is also playing a more important role in importing softwood logs. While Finland did not increase its share significantly (due to the size of China's increased imports from Russia), it increased imports of softwood logs from Russia by almost 45 percent in three years.

Export Markets

China. China is by far the major destination of Russian wood products exports. In 2002, China accounted for 27.2 percent, approximately $791 million, of total Russian wood exports. Russia maintained its role as China's largest supplier of logs, particularly softwood logs. Softwood logs exported from Russia reached 13.9 million cubic meters, 60 percent more than 2001. Russian logs are primarily large diameter logs harvested from natural forests of species similar to those found in northeast China.

Border trade between the Russian Far East and the province of Heilongjiang is key for Russian exports of logs, accounting for estimated 87 percent of trade with China. Low transportation costs and the use of Chinese labor to harvest Russian trees provide a substantial price advantage for producers. As a result, Russian logs are much cheaper than those from North America or New Zealand. According to Russian export statistics, exports of softwood logs to China were 13.9 million cubic meters in 2002. However, Chinese import data shows 15.8 million metric tons for the same period. Thus, there is a huge 1.02 million cubic meter difference between the statistics of each country. Moreover, if significant smuggling and illegal harvest of logs along that border is added, the real trade is much higher.

In analyzing the statistics and considering the information on illegal loggings given by organizations like the World Wildlife Fund, the Russian and Chinese trade data are surprisingly close. Experts think there is a significant difference between China and the other countries mentioned in terms of customs enforcement. Essentially, when illegally harvested Russian wood crosses the border it is less likely to become "legalized" by being registered as imports by customs, despite its illegal origin, in China than in Japan. This is due to China's long land border with Russia, in contrast to Japan, and a less developed customs regime.

China's industry sources do not expect the structure of China solid wood imports to change to any large extent in the coming years. Russia and New Zealand are expected to dominate China's softwood product imports. However, New Zealand's market share may grow marginally due to new production capacity. Chinese imports of softwood lumber from Russia account for 4.5 percent of all wood exports in 2002 and is estimated at 405,000 cubic meters, 59 percent greater than 2001. Russia lumber exports are followed by New Zealand, Canada, and Brazil. While China is looked at as a market for softwood lumber in the future, the value added trade between the two countries is still low compared to the log trade.

Recently, there has been an increasing amount of cooperation between the Russian and Chinese governments on logging issues. For example, some companies based Heilongjiang Province have established processing facilities in the Russian forest zones to manufacture wood flooring, lumber, and other wood products. Chinese business practices also tend to favor the use of Russian wood because it is similar to the species in northern China with which they are familiar. Russia has also welcomed operations of Chinese enterprises in fire-damaged areas due to the lack of labor in the Russian Far East. The Deputy Minister of Industry, Trade and Technology of Khabarovsk Krai stated at the regular Russian–Chinese working group meetings on assimilation and usage of forest resources, that it is essential to introduce joint enterprises for processing high value-added products, with 100 percent

Chinese capital in the Far East. Another example for strengthening cooperation between Russia and China in the forestry complex development is the Chinese announcement of investing $280 million dollars in logging and high value processing of wood in Chitinskaya oblast. The project will be introduced by three major Chinese companies and is the largest investment in the forest sector for Chinese companies in the Russian Far East. It is estimated that by 2006, two million cubic meters will be logged, while 1.5 million cubic meters will stay for further processing in Russia.

Japan. Japan is also a large importer of wood products from Russia, mainly softwood logs. According to Russian statistics, Japan accounted for 16.5 percent of overall Russia's export of softwood logs in 2002 (4.6 million cubic meters). Russia claimed 31 percent of all Japanese imports of softwood logs and North American suppliers had 42 percent market share.

There has recently been an overall decline in demand in Japan due to a sluggish wood product manufacturing sector in 2002. However, since the beginning of 2003, imports are picking up. Clearly, the importance of Japan as a market for Russian exports is not growing. Though the Japanese market is very big, Russia has only been able to make small gains in the softwood lumber market.

Finland. Finland has become a leading importer of Russian raw material in recent years due to high demand from the Finnish processing sector. The high level of imports is also explained by the relatively high price of Finnish domestic raw material. Demand from the Finnish processing sector will probably remain high for the medium term due to the higher internal prices for raw material and the efficiency and existing market presence of Finnish companies. While there are complaints from the Russian forestry industry near the Finnish boarder about illegal logging, it is unclear the scale of these illegal activities. However, the differences in the official statistics between the two countries, 664,000 cubic meters, suggest that export companies are not reporting significant volumes of trade.

Republic of Korea. Temperate softwood logs and products from New Zealand, Canada and Russia continue to dominate the Korean market. According to Korean import data for 2002, Russia commands only 20 percent of the softwood logs market, 1.5 million cubic meters. New Zealand commands more than 63 percent market share. However, of the four large trading partners profiled here, the official trade data between South Korea and Russia varies the most. The most important difference is in softwood logs (1.5 million cubic meters), where Korea data shows Russia with about 20 percent market share, but Russian data shows very small exports. At this point, it is unclear why this large discrepancy exists.

Trade Policy

According to trade sources, there are two issues currently being discussed between industry and government officials: the elimination or decrease of export duties for all high value-added wood products and import taxes for new technological equipment. Large wood processing enterprises have officially filed a petition to the Governmental Commission on Foreign Trade Protection and Customs Tariff Regulation to decrease all export taxes that were not abolished in recent years. Industry sources believe that only by reducing taxes can they increase the competitiveness of Russian high value-added wood products on foreign markets and increase their profitability. The decision to apply export tariffs was made during the period of the ruble devaluation and considered no longer applicable to the current macroeconomic situation.

Based on Government Resolution #931, of December 26,2002, export duties for certain types of construction parts, firewood and some paper and carton products were abolished. In 2003, the Government introduced a similar resolution that reduces export duties for a wider range of construction parts, including MDF of middle density, and most types of carton and packaging material were abolished. This serves as a considerable breakthrough in stimulating local producers to export more value added products. Import duties for wood products have remained unchanged and are reflected in Table 4 in GAIN Report RS#2009 of 2002.

Trade Data

Table 1. Trade In Softwood Logs and Lumber - Comparison Table (1,000 cubic meters)

Russian Exports to China				Chinese Imports From Russia			
	2000	2001	2002		2000	2001	2002
SW Logs	5872	8056	12877	SW Logs	5485	8226	13900
Total to World	23424	23903	28373	Total From World	6398	9092	15780
SW Lumber	148	191	501	SW Lumber	129	237	405
Total to World	5900	5950	6996	Total From World	468	640	768
Russian Exports to Japan				**Japanese Imports from Russia**			
	2000	2001	2002		2000	2001	2002
SW Logs	6836	5036	4558	SW Logs	5259	4989	4746
Total to World	23424	23903	28373	Total From World	12240	11295	12923
SW Lumber	616	406	647	SW Lumber	555	596	694
Total to World	5900	5950	6996	Total From World	8806	8027	8925
Russian Exports to Korea				**Korean Imports from Russia**			
	2000	2001	2002		2000	2001	2002
SW Logs	12	13	34	SW Logs	1511	1471	1499
Total to World	23424	23903	28373	Total From World	5940	6318	7414
SW Lumber	N/A	841	102	SW Lumber	24	30	62
Total to World	5900	5950	6996	Total From World	196	202	301
Russian Exports to Finland				**Finnish Imports from Russia**			
	2000	2001	2002		2000	2001	2002
SW Logs	3805	4845	5472	SW Logs	4162	5342	6136
Total to World	23424	23903	28373	Total From World	4660	5936	6875
SW Lumber	223	119	147	SW Lumber	217	158	143
Total to World	5900	5950	6996	Total From World	263	209	195

Sources: 1) Russian Customs Statistics 2000, 2001, 2002.
2) Solid Wood Products GAIN Reports from China, Japan, Korea, Finland for 2001, 2002, 2003.

Table 2. Russian Exports of Total Wood Products By Value (Jan-May), Million Dollars

					% Change
Rank	Country	2001	2002	2003	2003/2002
	World	1218	1237	1399	13,14
1	China	184	355	333	-6,41
2	Finland	167	174	226	29,85
3	Japan	375	188	215	14,1
4	Korea, South	33	32	28	-11,74

Table 3. Russian Exports of Softwood Logs By Value (Jan-May), Million Dollars

					% Change
Rank	Country	2001	2002	2003	2003/2002
	World	633	631	605	-4,18
1	China	155	313	261	-16,81
2	Japan	281	123	135	9,83
3	Finland	75	89	112	25,88
4	Korea, South	31	29	25	-11,51

Table 4. Russian Exports of Softwood Logs By Volume (Jan-May), 1,000 Cubic Meters

					%Change
Rank	Country	2001	2002	2003	2003/2002
	World	12571	12961	12089	-7
1	China	3129	5729	5274	-8
2	Finland	2265	2698	2554	-5
3	Japan	4184	2060	2252	9
4	Korea, South	759	634	545	-14

Table 5. Russian Exports of Softwood Lumber By Value (Jan-May), Million Dollars

					% Change
Rank	Country	2001	2002	2003	2003/2002
	World	287	323	439	35,92
1	Japan	59	46	60	32,82
2	Egypt	16	26	42	59,99
3	United Kingdom	22	29	31	8,36
4	Germany	19	17	30	78,83

Table 6. Russian Exports of Softwood Lumber By Volume (Jan-May), 1,000 Cubic Meters

					%Change
Rank	Country	2001	2002	2003	2003/2002
	World	2901	3347	3984	19
1	Egypt	174	2840	447	57,7
2	Japan	360	296	364	22,8
3	United Kingdom	222	281	258	-7,92
4	China	78	200	215	7,46

Table 7. Russian Exports of Softwood Plywood By Value (Jan-May), Million Dollars

					% Change
Rank	Country	2001	2002	2003	2003/2002
	World	17	16	19	20,2
1	Country Unknown	6	7,4	9,2	25,05
2	Finland	1	2	3,1	61,09
3	United States	0,7	1,2	1,3	4,93
4	Italy	0,5	1,1	1,2	10,38

Table 8. Russian Exports of Softwood Plywood By Volume (Jan-May), 1,000 Cubic Meters

					%Change
Rank	Country	2001	2002	2003	2003/2002
	World	83	75	85	13
1	Country Unknown	29	37	45	21,5
2	Finland	3	5	9	58,9
3	United States	3	5	5	-0,48

Table 9. Chinese Imports of All Wood Products By Value (Jan-May), Million Dollars

					%Change
Rank	Country	2001	2002	2003	2003/2002
	World	1455	1621	1939	18
1	Russia	207	436	458	22,74
2	Malaysia	160	168	236	12,22
3	Indonesia	299	202	222	11,57
4	United States	63	101	122	6,4
5	Gabon	103	77	86	4,43

Table 10. Chinese Imports of Softwood Logs By Value (Jan-May), Million Dollars

					%Change
Rank	Country	2001	2002	2003	2003/2002
	World	178	410	397	-8,21
1	Russia	161	367	341	-12,21
2	New Zealand	11	32	45	40,41
3	United States	2	3	2	-50,01

Table 11. Chinese Imports of Softwood Logs By Volume (Jan-May), 1,000 Cubic Meters

					% Change
Rank	Country	2001	2002	2003	2003/2002
	World	3123	6527	6309	-3,33
1	Russia	2868	5880	5450	-7,3
2	New Zealand	171	523	720	37,58
3	Australia	6964	22	41451	84,74
4	Canada	2488	9598	34665	261,17
5	Myanmar	12240	23884	18478	-22,63
6	Korea, North	30284	18481	17000	-8,01

Table 12. Chinese Imports of Softwood Lumber By Value (Jan-May), Million Dollars

Rank	Country	2001	2002	2003	%Change 2003/2002
	World	36	60	82	36,6
1	Russia	8	19	23	18,07
2	New Zealand	10	12	16	33,9
3	Canada	3	5	14	186
4	Chile	1	2	4	60,8

Table 13. Chinese Imports of Softwood Lumber By Volume (Jan-May), 1,000 Cubic Meters

Rank	Country	2001	2002	2003	% Change 03/02
	World	239	46	579	27,09
1	Russia	72	184	209	13,61
2	Canada	29	39	98	155,39
3	New Zealand	50	62	79	28,09
4	Myanmar	20	24	34	40,52

Table 14. Chinese Imports of Softwood Plywood By Value (Jan-May), Million Dollars

Rank	Country	2001	2002	2003	%Change 2003/2002
	World	26	21	31	51
1	Indonesia	18	15	20	32
2	Malaysia	3	4	4	24
3	Taiwan	1	1	2	217
4	Japan	0	0	1	685
5	Russia	0,4	0,02	1,3	5138

Table 15. Chinese Imports of Softwood Plywood By Volume (Jan-May), in 1,000 Cubic Meters

Rank	Country	2001	2002	2003	% Change 2003/2002
	World	66	64	80	24,77
1	Indonesia	46	47	52	10,69
2	Malaysia	10	12	14	15,53
3	Taiwan	1,2	1,1	4	269,22
4	Russia	0,4	0,08	2	2956
5	Japan	0,37	0,3	2	605,12

Source: World Trade Atlas

Softwood Logs PSD

PSD Table

Country	**Russian Federation**					
Commodity	**Softwood Logs**				1000 CUBIC METERS	
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Production	66000	70400	68000	72120	0	74280
Imports	0	0	0	0	0	0
TOTAL SUPPLY	66000	70400	68000	72120	0	74280
Exports	21500	27500	22500	28980	0	30280
Domestic Consumption	44500	42500	45500	43140	0	44000
TOTAL DISTRIBUTION	66000	70400	68000	72120	0	74280